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SUBJECT: BMW ON EU CO2 RULES, FRENCH INFLUENCE, AND FUTURE OF THE
AUTOMOBILE

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SUMMARY

¶1. (SBU) A senior BMW official told ConGen Munich that proposed EU rules on auto carbon emissions would not only be ineffective, but represent French "industrial policy," rewarding manufacturers of low-tech small cars and punishing Germany's manufacturers of larger, more carbon-efficient, vehicles. To meet stricter regulations, BMW has made substantial investments in a mix of technologies the firm says will allow it continue producing high-performance vehicles customers demand while reducing carbon output. BMW sees a future that includes a place for multiple fuel sources, ranging from diesel to hydrogen. Regardless of the outcome of the EU policy debate, BMW's aggressive investment in clean technology, in-part driven by the threat of EU regulation, is already allowing the firm to market its "green" attributes, helping ensure the survival of the automobile, and BMW, in the future.

EU RULES REPRESENT FRENCH "INDUSTRIAL POLICY"

¶2. (SBU) ConGen Munich met with Dr. Thomas Becker, BMW's V.P. for Intergovernmental Affairs to discuss BMW's view of EU environmental regulations, and the company's strategy to meet increasingly stringent emissions rules. When asked about BMW's view of proposed EU regulations that aim to set a manufacturers' fleet-average limit of 120 g/km of CO2 by 2012, Becker did not mince words. He told us the rule reflected misguided EU policy that would reward the auto industries of France and Italy for building small and light, but technologically inferior, automobiles, while punishing German manufacturers for building larger, but more advanced vehicles. Becker added that the current proposal was a result of heavy-handed lobbying in Brussels by the countries that manufacture primarily small cars -- France, and to a lesser extent, Italy, Slovenia and Romania. The proposal represented nothing less than "French industrial policy" being carried out by the EU.

¶3. (SBU) Becker said French officials did not even attempt to disguise their proposals as environmental measures. Rather, they were very open about the rules being designed to weaken German car manufacturers to benefit French companies like PSA (manufacturer of Peugeot and Citroen). Becker said the French were even going so far as to present their industrial policy as egalitarian social policy, quoting PSA CEO Christian Streiff saying in a press interview "The European government can't accept that the rich damage the environment more than the less affluent...one gram CO2 must be one gram for each citizen. There must be no discrimination."

EU'S METHODOLOGY FLAWED

14. (U) Becker said BMW supported in principle the EU's attempt to introduce mandatory limits for vehicle emissions. The current draft, however, was not only unfair, but would not lead to a substantial reduction in CO2 emissions. Instead of using the average CO2 output of a manufacturer's entire product-line, as called for under the current EU proposal, BMW would rather see a system that would set ambitious but achievable goals for different weight classes of vehicles. Becker observed that the current fleet-average proposal would treat equally the worst-polluting small car and the best performing large luxury sedan, even though the larger car was actually much more CO2 efficient due to the manufacturer's investment in cutting-edge technology. However, a weight-class based system would pit small cars against small cars, and larger cars against similarly large vehicles, thus exposing a manufacturers' real CO2 efficiency. For example, if BMW could get the CO2 output of a relatively large 5-Series sedan down to even the vicinity of that of a small Renault Twingo, it would reveal which manufacturer had really made strides to cut CO2 output (read BMW). Additionally a weight-class based system would help ensure the preservation of customer choice, given that not everyone wants to be forced to buy a Renault Twingo-sized car in order to reduce carbon output.

15. (U) Becker explained the EU's method of measuring CO2 output is also flawed. Tests are performed with vehicle accessories, such as air conditioning, radio, lights, and windshield wipers, turned-off, which is not a "real world" scenario. The problem, Becker noted, is there is little incentive for manufactures to improve efficiency of the various systems in the car, as their impact is not measured. Furthermore, EU testing guidelines ignore manufacturers' recommendations for shifting points - arbitrarily requiring shifting

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to a higher gear at a set RPM, even if the manufacturer called for shifting-up at a lower RPM. Another problem was the lack of synchronization of the regulatory framework with manufacturers' development cycles, as the proposed CO2 requirements would not be phased-in, but would apply equally to "state of the art" cars on the market in 2012 and older designs nearing the end of their product life-cycle.

16. (U) Becker was also highly critical of the penalties proposed by the EU, saying they were too high. Starting in 2012, if a manufacturer exceeded the 120 g/km limit of CO2 it would face a penalty of 20 Euros per gram over the limit, multiplied by the number of cars it sold in the EU that year. By 2015 that penalty would increase to 95 Euros -- a company with unit sales of 1,000,000 vehicles in Europe whose fleet exceeded the limit by 10 grams would face a fine of nearly 1 billion Euros. Becker said it made no sense to penalize the automotive industry with a price of 95 Euros per gram, when the "market price" for carbon for other industries, such as electricity generation, was 20 Euros per gram, based on carbon trading.

BERLIN STANDING UP FOR GERMAN INDUSTRY

17. (SBU) When asked if BMW thought the German government was doing enough to defend German manufacturers from this alleged French-inspired "industrial policy," Becker said he thought it was. He said it had come as a surprise to French officials that the German government was standing behind domestic car manufacturers, and that this support cut across party affiliations and ministries. Nevertheless, Becker said a viable compromise was unlikely this year as France would take over the EU Presidency July 1 and could be expected to manipulate the outcome of any discussions. Becker said that as much as BMW would like to see the EU policy made more rational, it would not want to see wrangling over the legislation dragged-out until the last minute, as the company prefers regulatory certainty to the unknown. If given clear regulations, even bad regulations, BMW engineers would at least have something to go to

work on leading up to 2012.

TOMORROW'S CAR -- SALVATION THROUGH TECHNOLOGY

¶8. (U) Becker repeatedly made the point that BMW was not opposed to building cleaner cars, adding that BMW's view is that customers should not have to compromise between an environmentally sound product and one that offers high-performance and comfort - a concept BMW calls "EfficientDynamics." To illustrate the benefits of EfficientDynamics, Becker used the example of the BMW X5 "Vision" SUV hybrid concept vehicle, unveiled at the Geneva Auto Show on March 6. BMW claims the SUV is the most efficient vehicle of its size in the world, with virtually the same performance as a normal X5, but achieving 43.5 MPG and just 172g/km of CO2 emissions. In contrast, a normal gasoline-powered X5 with a 3.0 liter engine gets just 18 mpg (according to EPA estimates), and emits 244g/km of CO2.

¶9. (U) BMW achieved this efficiency with electric-hybrid technology combined with a twin-turbocharged four-cylinder diesel engine, an eight-speed automatic gearbox and roof-mounted solar panels. In addition, BMW used "Brake Energy Regeneration," generating electricity from the kinetic energy that would normally be converted into heat during braking. BMW says all of these technologies will start appearing in its production cars as early as 2010. As a result of the company's research into CO2 reduction, BMW says it was able to reduce the CO2 emissions of its fleet by seven percent in 2007, and by the end of 2008 will have cut fleet CO2 emissions by 25 percent from 1995 levels.

FUTURE WILL REQUIRE A MIX OF FUEL SOURCES

¶10. (U) Becker said BMW foresees a future in which no single propulsion technology will replace today's internal-combustion engine. The company is particularly bullish on diesel technology -- already used in 67 percent of the cars BMW sells in Europe. Becker said BMW's latest generation of diesels offer the performance of a gasoline engine, but with dramatically improved fuel-economy and lower CO2 output. Becker said a key element of BMW's U.S. strategy is to promote the advantages of diesels now that cleaner low-sulfur diesel fuel is widely available in the U.S. Becker related how BMW currently produces diesel engines in Austria, ships them to Spartanburg, South Carolina where they are integrated into X5 SUVs, which are then shipped back to Europe - none of the diesels remain in the U.S.

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¶11. (U) Becker said BMW would like to see common standards between the U.S. and EU on biofuels, and strongly supports the Transatlantic Economic Council's (TEC) efforts in this regard. Becker said BMW would also like to see minimum sustainability standards worldwide for biofuel production, specifically mentioning Brazil. While BMW believes the current crop of hybrids, such as the Toyota Prius, doesn't offer significant advantages over the newest clean diesels, the company is exploring ways to integrate hybrid technology in new ways, as with the diesel-hybrid X5 Vision, and even a steam-hybrid concept that recaptures exhaust heat and uses it to provide additional boost to the engine.

¶12. (U) Becker said BMW's fleet of 100 "CleanEnergy" hydrogen-powered 7-Series sedans, about 25 of which are in the U.S., is an attempt to demonstrate that hydrogen fuel-cell technology is viable from the manufacturer's perspective. Another objective is to promote investment in a hydrogen infrastructure, such as production facilities and fueling stations. While hydrogen remains very energy-intensive to produce at present, BMW foresees the possibility of large-scale hydrogen production from renewable sources such as wind and solar in the future.

COMMENT

¶13. (SBU) We were not expecting an endorsement of the EU's carbon-reduction proposals from BMW. We were, however, a little surprised by the extent to which BMW believes France manipulates EU environmental policy to the benefit of its own industry. We also found it notable that BMW feels the Merkel government in Berlin is "going to bat" in the EU for the auto manufacturers, apparently viewing the proposed regulations from Brussels as an existential threat to Germany's most important industry. We were impressed by the breadth of BMW's research across the spectrum of clean technologies - clearly the company is preparing for the "worst" from Brussels. France's nationalistic intentions aside, it would appear the threat of harsh regulations from the EU is driving auto manufacturers to push the technological envelope - something that, ironically, may ensure that the automobile, and companies like BMW, remain viable components of the transportation mix of the carbon-conscious years ahead.

¶14. (U) This report has been coordinated with Embassy Berlin.

¶15. (U) Previous reporting from Munich is available on our SIPRNET website at www.state.sgov.gov/p/eur/munich/ .

NELSON